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RUEHRC/DEPT OF AGRICULTURE WASHDC  
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DEPT OF ENERGY FOR A/S KHARBERT, TCUTLER, CZAMUDA, RLUHAR  
DEPT PASS TO USTR MDELANEY/CLILIEFELD/AADLER  
DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA MNUGENT  
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN  
USDA PASS FAS/OCRA/RADLER/BEAN/FERUS  
EEB/CIP FSAEED, KDUNNE, AGIBBS

E.O. 12958: N/A  
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IN

SUBJECT: New Delhi Weekly Econ Office Highlights for the Week of  
September 8-11, 2009

REFTEL: New Delhi 1861

¶1. (U) Below is a compilation of economic highlights from Embassy  
New Delhi for the week of September 8-11, 2009, including the  
following:

- Possible Warming of India-Pakistan Bilateral Trade Ties
- India's First Annual Foreign Trade Barriers Report
- Jet Airways Pilots Strike - An End in Sight
- GOI Adopts Fiscal Austerity Measures

Possible Warming of India-Pakistan  
Bilateral Trade Ties  
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¶2. (SBU) Pakistani Commerce Secretary Shuleman Ghani told the press  
on September 8 that he and his Indian counterpart, Commerce  
Secretary Rahul Khullar, had agreed to "to restore bilateral trade  
immediately" during talks on the margins of the September 3-4 Doha  
mini-ministerial (reftel). Ghani also indicated Pakistan would  
extend most favored nation (MFN) status to India once the composite  
dialogue process resumed. At a September 10 meeting, trade  
economists informed EEST M/C and Econoffs that this announcement did  
not appear to represent a real breakthrough; but rather was more of  
an indicator of a gradual political rapprochement. They explained  
businesspeople in both India and Pakistan were more than ready for  
warmer ties; it was politics that was the barrier. They noted that  
meanwhile, despite the ban, bilateral trade continued indirectly  
through Dubai - and directly unofficially.

¶3. (SBU) Rajeev Anantaram, Senior Fellow at the Indian Council for  
Research on International Economic Relations, told Econoff on  
September 11 that he "will believe it when I see it" on Pakistan  
officially opening up to trade from India. He explained that  
experts estimated Pakistan and India already traded approximately  
\$7-10 billion annually through Dubai (and also through smuggling  
along the borders of Rajasthan and Punjab). (Note: Official  
figures put bilateral trade at just \$1.9 billion in 2007.)

Anantaram opined that the primary obstacle to Pakistan providing India with MFN status was not Pakistan industry groups concerned about competition, but rather political groups which opposed any warming toward India. He surmised that the announcement could have been predicated by a quid pro quo during India-Pakistan peace talks in late August in Sharm el-Sheikh, with India possibly making MFN status one of the conditions for restarting the composite dialogue.

¶4. (SBU) Comment: India gave Pakistan MFN status in 1995 when joining the World Trade Organization, but Pakistan has refused to grant the status to India, even making this an exception when it ratified the South Asian Free Trade Agreement in 2006. It would be a welcome breakthrough if Pakistan were to grant India MFN status in the near future, regardless of the status of political talks. Warming on the economic front could generate significant good will for political discussions. End Comment.

#### India's First Annual Foreign Trade Barriers Report

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¶5. (SBU) India's Centre for WTO Studies at the government-sponsored Indian Institute of Foreign Trade (IIFT) on September 8 released its first annual report on the trade policies of India's major trading partners. The 75-page report discussed tariff and non-tariff market access barriers for Indian exports to 23 countries and the EC, with the latter taking up one-third of the report. Most of the data on U.S. policies, such as pest risk analyses, labeling requirements, prudential banking regulations, and security-related procedures, was taken directly from the 2008 WTO U.S. Trade Policy Review.

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¶6. (SBU) Rajan Ratna, a professor at the Centre who worked on the report, told econoffs on September 10 that the report was meant to mirror the United States' National Trade Estimate Report on Foreign Trade Barriers and would be released annually. He expected next year's report to be more comprehensive, with extensive data on bilateral trade and investment flows. Ratna said the Centre completed the report over one month ago, but the GOI delayed its release at least twice. Most recently, the GOI decided to wait until the Doha Mini-ministerial was over so that the report would not be perceived as an attack on visiting trade partners. Ratna added that the GOI also had commissioned the Centre for WTO Studies to write a report on U.S. barriers to Indian agricultural exports, in response to the U.S. Congress' January 2009 request for the U.S. International Trade Commission (ITC) to complete a study of the effects of Indian tariff and non-tariff measures on U.S. agricultural exports. Ratna said the Centre had begun its research in August and would complete the study by October (one-month ahead of the expected release of the ITC study). He explained that his team had already identified 200 agricultural items where India was worldwide competitive but did not currently export to the United States. The team was also looking at whether this was due to U.S. domestic subsidies, sanitary and phytosanitary measures, and/or U.S. preference programs with other countries.

#### Jet Airways Pilots Strike - An End in Sight

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¶7. (U) As the Jet Airways pilot strike marked its fourth day, media reported the strike was near resolution with management reportedly agreeing to reinstate the four pilots it fired and the striking pilots agreeing to resume duty. The parties are scheduled to meet at the Labor Commissioner's office in New Delhi on Friday, September 11 and a formal statement is expected after the meeting. Resolution came after Congress MP Sanjay Nirupam urged the central government to nationalize Jet to prevent the possibility of it closing down. In a letter to Prime Minister Manmohan Singh, Nirupam urged him to intervene not only to save the jobs of thousands of Jet Airways employees but to end large scale disruption of domestic and international flights. So far, the four-day strike has led to the cancellation of almost 700 flights affecting over 28,000 passengers, with rival airlines charging exorbitant prices because of the drastic reduction of available seats. Media also reported pressure

from Praful Patel, Minister of Civil Aviation on Jet owner Naresh Goyal as a deciding factor leading to resolution of the strike.

#### GOI Adopts Fiscal Austerity Measures

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¶8. (U) In a notification on expenditure management issued on September 7, the Ministry of Finance indicated that due to the government's weak fiscal status and the prevailing drought situation, there was a need to rationalize resources. (Note: The centre's fiscal deficit as a percentage of GDP is expected to exceed the target of 6.8 percent for FY 2009-10. End note.) AS a result, the Finance Ministry requested that all government ministries and departments cut non-Plan spending by 10 percent for the current year. The cut is applicable on domestic and foreign travel expenses, publications, professional services, advertising, office expenses, petroleum (except security-related) and administrative expenses. The remaining portion of non-Plan expenditures (excluding interest payments, repayment of debt, defense capital, salaries, pension and fiscal grants to the states) would also be reduced by 5 percent.

¶9. (U) The new financial management measures impose a complete ban on holding meetings and conferences at five-star hotels, restrict air travel to only economy class, pose strict limits on foreign travel, and ban purchases of vehicles except for operational

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requirements of defense forces. The measures also prescribe limits to spending on seminars and conferences, along with a 10 percent reduction on budget allocations for seminars and conferences. Exhibitions and conferences held abroad are also being discouraged, except for trade promotion purposes. According to the notification, government employees are able to participate in study tours and conferences abroad provided they are fully funded by the sponsoring agencies. The Ministry of Finance's earlier instructions, which restricted the usage of telephones, imposed a ban on the creation of jobs and called for observance of fiscal discipline by states, state-owned enterprises and local bodies, will continue to remain in force.

¶10. (SBU) Along with the notification, Finance Minister Mukherjee requested that ministers and bureaucrats reduce wasteful costs. (Note: In a colorful illustration of the new austerity measures, local media reported that the Finance Minister asked External Affairs Minister S. M. Krishna and his Deputy, Shashi Tharoor, to vacate their residences at five-star hotels. Tharoor denied that his stay at the hotel was publically financed. End Note.) At a highly-publicized recent meeting of the Congress Working Committee, chaired by Sonia Gandhi, a resolution was adopted asking all elected representatives of the party to participate in an "austerity drive" and donate 20 percent of their salaries as a means of showing solidarity with drought-affected Indians.

¶11. (U) Visit New Delhi's Classified Website:  
<http://www.state.sgov/p/sa/newdelhi>.

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